

Message Text

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S E C R E T STATE 291030

NODIS

WHITE HOUSE FOR BRZEZINSKI, COMMERCE FOR SECTY KREPS

FOLLOWING REPEAT WARSAW 8809 ACTION SECSTATE DEC 6.

QUOTE: S E C R E T WARSAW 8809

NODIS

EO 11652GDS

TAGS: EFIN PL

SUBJ: POLAND'S REQUEST TO RESCHEDULE CCC AND EXIM CREDITS:
ASSESSMENT AND RECOMMENDATIONS

REF: A. WARSAW 8729, B. WARSAW 8730, C. WARSAW 8808

1. SUMMARY: THE POLISH GOVERNMENT'S REQUEST TO RESCHEDULE CCC AND EXIM PAYMENTS DUE OVER THE NEXT THREE YEARS IS A MAJOR, QUALITATIVE CHANGE FROM THE GOP'S PREVIOUS HANDLING OF ITS FOREIGN DEBT. OUR RESPONSE TO THE REQUEST SHOULD CONVEY THIS PERCEPTION.

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FIRST, WE SHOULD MAKE CLEAR THAT, WHILE WE ARE WILLING TO CONSIDER ANY GOP REQUEST FOR FINANCIAL ASSISTANCE, PROVISION OF COMPLETE TRADE AND FINANCIAL DATA IS A PRECONDITION. THIS IS TRUE FOR CONSIDERATION OF ANY SIZEABLE NEW CREDITS, AND DOUBLY SO FOR THE QUESTION OF RESCHEDULING, IN WHICH THE GOP MUST ASSUME A BURDEN OF PROOF TO SHOW THAT THIS STEP IS NECESSARY. SECOND, WE SHOULD EXPLAIN THAT, IF THE GOP THINKS RESCHEDULING IS NECESSARY, THIS SHOULD BE DONE ON A MULTILATERAL BASIS AMONG ALL ITS MAJOR CREDITORS, AND NOT MERELY WITH THE USG. WE CAN GIVE THE GOP THE OPPORTUNITY TO EXPLAIN WHY IT THINKS SUCH RESCHEDULING

SHOULD BE CONFINED TO THE USG, AND HOW IT PLANS TO EFFECT RE-PAYMENT, AS LONG AS IT UNDERSTANDS THAT WE ARE NOT LIKELY TO AGREE TO THIS STEP AND THAT, IF WE DO SO, IT WOULD INVOLVE SPECIAL CONSIDERATIONS.

2. I BELIEVE THE POLISH LEADERSHIP WILL MAKE AVAILABLE THE FINANCIAL INFORMATION WHICH WE ARE REQUESTING, BUT WILL, AT LEAST FOR THE TIME BEING, REACT NEGATIVELY TO OUR SUGGESTION THAT IT FORMALLY RESCHEDULE ITS WESTERN DEBT. THE LEADERSHIP PROBABLY REGARDS ITS REQUEST FOR AN "EASING" OF ITS CCC AND EXIM PAYMENTS AS A CONTINUATION OF, RATHER THAN A QUALITATIVE DEPARTURE FROM, ITS POLICY OVER THE LAST TWO YEARS OF SEEKING FINANCIAL ASSISTANCE FROM WESTERN GOVERNMENTS ON AN INFORMAL, BILATERAL BASIS. THE GOP'S OBJECTIVE IN PURSUING THIS POLICY HAS BEEN, IN FACT, TO BUY SUFFICIENT TIME TO ALLOW IT TO AVOID FORMAL RESCHEDULING. THE LEADERSHIP NO DOUBT KNOWS THAT FORMAL RESCHEDULING WOULD DRAW A STRONG REACTION FROM THE SOVIETS AND FEED CHARGES OF "FINANCIAL BANKRUPTCY" FROM THE POLISH POPULACE AT A TIME WHEN NEW DOMESTIC TENSIONS COULD BE DISASTROUS.

3. THESE FACTORS SHOULD LEAD US TO PROCEED WITH DUE CAUTION, BUT WITHOUT DELAY, IN RESPONDING TO THE POLISH REQUEST FOR RESCHEDULING OF CCC AND EXIM DEBT. A VISIT BY FINANCE MINISTER
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KISIEL TO SECRETARY BLUMENTHAL MIGHT BE ARRANGED WITHIN THE NEXT TWO WEEKS TO ASSURE THAT OUR APPROACH IS UNDERSTOOD BEFORE THE DECEMBER 29-30 VISIT OF THE PRESIDENT. I ALSO RECOMMEND THAT WE CONTINUE OUR CURRENT PUBLIC POSTURE TOWARD POLAND'S FINANCIAL POSITION, NAMELY, THAT WE ARE INSISTING ON SUBMISSION ON COMPLETE FINANCIAL INFORMATION, BUT ARE WILLING TO CONSIDER NEW CCC CREDITS AND A LONG-TERM AGRICULTURAL AGREEMENT IF THE GOP MEETS THIS REQUIREMENT. WE SHOULD NOT APPEAR TO BE SHUTTING THE DOOR TO POLAND'S FINANCIAL NEEDS, SINCE TO DO SO COULD CREATE AN ADVERSE REACTION IN THE PRIVATE BANKING COMMUNITY AND POSSIBLY AMONG THE POLISH PEOPLE. END SUMMARY.

4. THE POLISH LEADERSHIP CONSIDERS ITS REQUEST FOR AN "EASING" OF CC AND EXIM PAYMENTS AS A CONTINUATION OF, RATHER THAN A QUALITATIVE DEPARTURE FROM, ITS PREVIOUS POLICY OF SEEKING FINANCIAL ASSISTANCE ON INFORMAL, BILATERAL BASIS FROM WESTERN GOVERNMENTS. AS SUCH, THE LEADERSHIP IS PROBABLY BANKING ON OUR POSITIVE RESPONSE AND MAY WELL NOT HAVE THOUGHT THROUGH ALL OF THE IMPLICATIONS OF ITS REQUEST.

5. NOTHING IN THE PRESENTATIONS OF PERMIER JAROSZEWICZ AND FINANCE MINISTER KISIEL TO SECRETARY KREPS SHOWED ANY EVIDENCE THAT THE GOP HAS CONDUCTED A REAPPRAISAL OF ITS DEBT SITUATION AND DETERMINED THAT IT MUST FORMALLY RESCHEDULE ALL OF ITS FOREIGN DEBT. IN FACT, THEY PRESENTED THE REQUEST FOR AN "EASING" OF CCC AND EXIM PAYMENTS IN A RATHER MATTER-OF-FACT, CASUAL MANNER. KISIEL WAS QUITE OPEN IN SAYING THAT POLAND HAD NOT ASKED ANY OTHER

WESTERN GOVERNMENT FOR FORMAL RESCHEDULING, AND LEFT THE IMPRESSION THAT HE THOUGHT THIS FACT WAS INSIGNIFICANT. MOREOVER, HE DID NOT PROVIDE A CLEAR EXPLANATION OF WHY PL-480 CREDITS, WHICH ARE OF ABOUT THE SAME MAGNITUDE AS THOSE OWED EXIM, WERE NOT INCLUDED IN THE REQUEST. HE PRESUMABLY THOUGHT ACTION ON PL-480 WOULD BE MORE DIFFICULT SINCE THE POLES HAD ALREADY RECEIVED A DEFERRAL IN 1975. KISIEL'S PRESENTATION ALSO SHOWED NO AWARENESS THAT CONSIDERATION OF RESCHEDULING OF EXIM-HELD DEBT WOULD BE MORE COMPLICATED, DUE TO EXIM'S SEPARATE CHARTER.

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6. FACED WITH THE COMING VISIT OF PRESIDENT CARTER, POLISH LEADERS HAVE ASKED THEMSELVES WHAT THEY CAN GET FROM THE US, RATHER THAN FOCUSING ON WHETHER A GENERAL RESCHEDULING OF POLAND'S DEBT IS IN ORDER. THIS APPROACH IS UNDERSTANDABLE, SINCE THE POLES HAVE PREVIOUSLY OBTAINED FINANCIAL ASSISTANCE FROM GERMANY AND FRANCE IN THE FORM OF GOVERNMENT-GUARANTEED "LOCAL-COST" FINANCING FOR KEY COPPER, COAL-GASIFICATION, AND CHEMICAL PROJECTS. THESE LOANS AMOUNT TO OVER \$300 MILLION IN WHAT ARE IN EFFECT FINANCIAL, BALANCE-OF-PAYMENTS CREDITS. THE GOP HAS FURTHER OBTAINED GOVERNMENT CREDIT LINES FROM MANY OF THE MAJOR OECD-MEMBER COUNTRIES. THE THRUST OF THESE GOP FINANCIAL MANEUVERS IS FULLY DESCRIBED IN WARSAW 5324. THE POLISH LEADERSHIP THEREFORE, PRESUMABLY REGARDS ITS REQUEST OF LAST WEEK AS OF THE SAME ORDER OF MAGNITUDE AS THE ASSISTANCE OBTAINED FROM ITS MAJOR WEST EUROPEAN CREDITORS.

7. THE FACT THAT KISIEL INITIALLY WANTED TO HAVE THE POLISH REQUEST FOR RESCHEDULING INCLUDED IN THE AGREED MINUTES OF THE COMMISSION MEETING ALSO INDICATES THAT HE THOUGHT THE NEWS WOULD STRENGTHEN, RATHER THAN HURT, POLAND'S STANDING WITH PRIVATE WESTERN BANKS. HE WOULD OTHERWISE NOT HAVE DARES PROPOSE THIS STEP WHILE IN THE FINAL DAYS OF NEGOTIATING THE CHASE COPPER CREDIT. KISIEL SEEMS TO BE CALCULATING THAT THE BANKS WILL REGARD ANY EASING OF PAYMENTS ON THE PART OF THE USG AS AN INDICATION THAT ALL OF POLAND'S FINANCIAL NEEDS WILL NOT HAVE TO BE BORNE BY PRIVATE MARKETS. THE EVENTUAL IMPACT ON PRIVATE BANKS IS IMPORTANT, BECAUSE POLAND WILL PROBABLY HAVE TO RELY ON PRIVATE BANKS TO COME UP WITH MOST OF THE \$2.5 BILLION IN CREDITS WHICH, ACCORDING TO SOME ACCOUNTS, IT WILL HAVE TO GENERATE TO COVER PAYMENTS OF PRINCIPAL AND INTEREST IN 1978.

8. WE THINK THE REACTION OF WESTERN BANKS, WHETHER OR NOT THE
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USG REACTS FAVORABLY TO THE POLISH REQUEST OF BILATERAL RESCHEDULING, IS PROBLEMATIC. NEWS OF THE POLISH REQUEST WOULD PROBABLY RESULT IN A FREEZE ON NEGOTIATION OF NEW CREDITS, ALTHOUGH THE COPPER CREDIT, WHICH WE UNDERSTAND IS BEING VIRTUALLY FULLY ASSUMED BY CHASE AT THIS POINT FOR BETWEEN \$150 MILLION AND \$200 MILLION,

MIGHT STILL GO THROUGH. MANY BANKERS, INCLUDING REPRESENTATIVES OF MANUFACTURERS HANOVER TRUST, SECURITY PACIFIC, AND POSSIBLY BANK OF AMERICA, HAVE BEEN COUNSELING THE GOP TO CALL A SPADE A SPADE AND FLOAT A MAJOR FINANCIAL CREDIT, ACCOMPANIED BY FULL FINANCIAL DISCLOSURE, ON THE EURODOLLAR MARKET NEXT YEAR. WE BELIEVE THE NUMBER OF MAJOR BANKS TAKING THIS APPROACH TOWARD POLAND WILL INCREASE IN THE MONTHS AHEAD. SOME REGIONAL US BANKS, TO WHICH POLAND IS TURNING INCREASINGLY FOR NEW SOURCES OF CREDITS, COULD WELL SHUN CREDITS TO POLAND ENTIRELY IF THEY THOUGHT THAT A RESCHEDULING OF ANY KIND WERE IN THE OFFING.

9. THE ABOVE SPECULATION ON THE REACTION OF THE BANKING COMMUNITY ASIDE, I AM CONFIDENT THAT THE APPROACH RECOMMENDED IN PARAGRAPHS 1-3 ABOVE WOULD BE COMPATIBLE WITH THE INTERESTS OF, AND WELCOMED BY, THE US BANKING COMMUNITY. THESE BANKS NEED COMPREHENSIVE INFORMATION IN ORDER TO DETERMINE WHETHER, OR AT WHAT RATES, TO EXTEND NEW CREDITS TO POLAND. IF WE ARE SUCCESSFUL IN ENCOURAGING THE GOP TO SEEK MULTILATERAL RESCHEDULING, WE WILL HELP ASSURE THAT PARTICULAR BANKS WHICH ALREADY HAVE LARGE EXPOSURES IN POLAND ARE NOT SADDLED WITH EVER LARGER, DISPROPORTIONATE BURDENS OF FINANCING POLAND'S GROWING DEBT. MOREOVER, A GENERAL RESCHEDULING WOULD HELP MAKE CLEAR WHAT PART OF THE BURDEN OF FINANCING POLAND'S DEBT IS TO BE BORNE BY GOVERNMENTS, AS OPPOSED TO PRIVATE LEADERS.

10. THE ASSUMPTION THAT THE USG WILL NOT RUBBER-STAMP THE POLISH REQUEST FOR DEFERRAL OF CCC AND EXIM CREDITS AS PRESENTED BY JAROSZEWICZ AND KISIEL, IS IMPLICITY IN THE ABOVE ANALYSIS. TO DO SO WOULD MERELY ENCOURAGE THE GOP TO PURSUE ITS AD HOC, BILATERAL APPROACH TO ITS FINANCIAL PROBLEMS. THIS WOULD OBSCURE THE HARD LOOK WHICH WE, AND THE POLISH LEADERSHIP ITSELF, NEED TO TAKE AT
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WHERE THE POLISH ECONOMY CURRENTLY STANDS AND HOW LONG IT WILL TAKE TO STRAIGHTEN OUT. THE GOP MUST BE MADE AWARE THAT IT WILL HAVE TO PRESENT A WORKABLE, DETAILED PLAN AS TO HOW, AND OVER WHAT PERIOD OF TIME, IT CAN GENERATE SUFFICIENT HARD CURRENCY TO SERVICE ITS DEBT WITHOUT SPECIAL ASSISTANCE. IF WE AGREED TO RESCHEDULE NOW ON THIS BILATERAL BASIS, WE COULD NOT DO SO WITH CONFIDENCE THAT THAT STEP WOULD NOT NEED TO BE REPEATED A FEW YEARS HENCE. QUITE THE CONTRARY; WE WOULD BE ENCOURAGING THE GOP TO CONTINUE TO TRY TO LEVER OTHER WESTERN CREDITORS INTO SIMILAR "EASINGS" OF PAYMENTS. IN THIS CASE, CONSIDERATIONS OF EQUITY ON SHOULDERING THE REFINANCING BURDEN WOULD BE LOST. SPEAKING OF EQUITY, WE SHOULD NOT FORGET THAT THE PREPONDERANCE OF POLAND'S DEBT HAS OCCURRED FROM MASSIVE IMPORTS OF CAPITAL GOODS FROM GERMANY, FRANCE, THE UK, JAPAN, AND ITALY. FOR THE US TO BE THE FIRST TO RESCHEDULE WITH POLAND WOULD, IN THE ABSENCE OF COMPELLING REASONS TO THE CONTRARY, BE AN ANOMALY.

11. WE SHOULD, THEREFORE, CONVEY TO THE POLISH LEADERSHIP THE NEED FOR FULL COMPLIANCE WITH OUR REQUEST FOR INFORMATION AND THE NEED TO PURSUE ANY REQUEST FOR RESCHEDULING ON A MULTILATERAL BASIS.

12. RECOGNIZING THAT POLAND MAY REJECT THIS ADVISE, WE NEED TO AVOID GIVING THE APPEARANCE THAT WE ARE CLOSING THE DOOR TO ANY AND ALL POLISH REQUESTS FOR FINANCIAL ASSISTANCE. WE CAN DO THIS BY MAKING CLEAR OUR CONTINUED WILLINGNESS TO CONSIDER A LONG-TERM AGRICULTURAL AGREEMENT AND ADDITIONAL CCC CREDITS, WHILE INSISTING THAT FULL DISCLOSURE IS A PRECONDITION TO EITHER OF THESE STEPS. IT IS, OF COURSE, CONTRADICTORY TO CONTINUE CONSIDERATION OF NEW CREDITS TO POLAND WHEN
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THEY HAVE REQUESTED RESCHEDULING, BUT WE SHOULD DO SO IN ORDER TO MINIMIZE THE POSSIBILITY OF THE LEADERSHIP, WESTERN BANKERS, OR THE POLISH PEOPLE SUDDENLY COMING TO THE CONCLUSION THAT POLAND'S ECONOMIC JUGGLING ACT HAS COME TO AN ABRUPT HALT. WE SHOULD AVOID, IF WE CAN, CONTRIBUTING TO THE CREATION OF A CRISIS ATMOSPHERE IN THIS VOLATILE COUNTRY. DAVIES
UNQUOTE VANCE

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